

Message Text

LIMITED OFFICIAL USE

PAGE 01 BUDAPE 01419 01 OF 02 150808Z

10

ACTION EB-07

INFO OCT-01 EUR-12 IO-10 ISO-00 SP-02 AID-05 NSC-05

CIEP-01 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00

FRB-03 INR-07 NSAE-00 USIA-06 XMB-02 OPIC-03 LAB-04

SIL-01 L-02 SAJ-01 AGR-05 H-02 PRS-01 PA-01 SAM-01

/103 W

----- 029999

R 141250Z MAY 75 ZFG
FM AMEMBASSY BUDAPEST
TO SECSTATE WASHDC 3217
DEPT OF COMMERCE WASHDC
INFO AMEMBASSY BELGRADE
AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY BUCHAREST
USDEL MTN GENEVA
AMEMBASSY MOSCOW
AMCONSUL MUNICH
AMEMBASSY PRAGUE
AMEMBASSY SOFIA
AMEMBASSY VIENNA
AMEMBASSY WARSAW

LIMITED OFFICIAL USE SECTION 01 OF 02 BUDAPEST 1419

E.O. 11652: N/A

TAGS: ECON, ETRD, HU

SUBJ: MORE AUTHORATIVE COMMENT ON HUNGARIAN ECONOMIC STRAINS

1. SUMMARY: ARTICLES IN WEEKEND PRESS BY NEPSZABADSAG
ECONOMIC EDITOR ISTVAN FOLDES AND FOREIGN TRADE EXPERT JANOS
NYERGES PROVIDE FURTHER INDICATION OF CURRENT STRAINS IN
HUNGARIAN ECONOMY SUGGESTING EXISTENCE OF VIGOROUS DEBATE
ON QUESTION WHETHER TO IMPOSE IMPORT CONTROLS TO ALLEVIATE
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 BUDAPE 01419 01 OF 02 150808Z

GROWING HUNGARIAN BALANCE OF TRADE DEFICIT. FOLDES ARTICLE

GIVES MOST BEARISH ACCOUNT TO DATE OF 1974 PERFORMANCE NOTING THAT WHILE 7 PERCENT GAIN IN NATIONAL INCOME REGISTERED, 90 PERCENT OF THE INCREASE NEGATED BY WESTERN MARKET PRICE INCREASES. FOLDES CONCLUDES THAT CHANGES ANNOUNCED AT LAST DECEMBER'S CENTRAL COMMITTEE MEETING (CC) TO REDUCE WASTER IN INDUSTRY, INCREASE EFFICIENCY, AND CLOSE BALANCE OF TRADE GAP HAVE YET TO HAVE ANY SIGNIFICANT IMPACT. END SUMMARY

2. IN FRANK COMMENT ON CURRENT ECONOMIC STATE OF AFFAIRS IN MAY 11 NEPSZABADSAG, DEPUTY EDITOR FOLDES NOTES THAT, WHILE HUNGARIAN ENTERPRISES AND CONSUMERS ARE CONTINUING TO ACT AS IF HUNGARIAN ECONOMIC SITUATION WERE AS FAVORABLE AS EVER, MOST RECENT DATA SHOWS THAT 1974 RESULTS WERE EVEN LESS FAVORABLE THAN PREVIOUSLY ASSUMED. ARTICLE NOTES THAT, ALTHOUGH NATIONAL INCOME ROSE 7 PERCENT DURING PAST YEAR, 90 PERCENT OF THIS INCREASE WAS NEGATED BY DEGENERATION IN HUNGARIAN TERMS OF TRADE WITH NON-COMMUNIST COUNTRIES, CLEARLY IMPLYING THAT REAL NATIONAL INCOME GROWTH ONLY ABOUT 1 PERCENT. YET AT SAME TIME DOMESTIC CONSUMPTION JUMPED 12.8 PERCENT INDICATING THAT HUNGARIANS ARE LIVING BETTER THAN THEY CAN AFFORD TO. DEGENERATION IN TERMS OF TRADE, FOLDES STATED, HAS BROUGHT ABOUT CONSIDERABLY LARGER TRADE AND BUDGET DEFICITS THAN ORIGINALLY EXPECTED.

3. ANOTHER UNFAVORABLE DEVELOPMENT NOTED BY FOLDES IS THE 16 PERCENT RISE IN INVENTORIES HELD BY INDUSTRIAL ENTERPRISES (EXCLUDING FOOD INDUSTRY) IN 1974. AT YEAR'S END INVENTORIES TOTALED 310 BILLION FORINTS, THE EQUAL OF VALUE OF 69 DAYS OF PRODUCTION AND TRADE TURNOVER. ALTHOUGH FOLDES DOES NOT GO INTO DETAIL RE CAUSE OF INVENTORY INCREASES, WE ASSUME THAT IMPORTANT CONTRIBUTING FACTOR HAS BEEN MASSIVE BUYING BY ENTERPRISES TO AVOID EXPECTED INCREASES FOR IMPORTED ITEMS DUE TO INFLATION AND DIFFICULTY IN MARKETING CERTAIN HUNGARIAN EXPORTS BECAUSE OF ECONOMIC SLOWDOWN IN THE WEST. FOLDES ALSO POINTS OUT THAT WHILE ENTERPRISE PROFITS ROSE 16 PERCENT IN 1974, ACTUAL PAYMENTS TO STATE BUDGET WERE BELOW 1973 LEVELS, PRESUMABLY DUE TO REDUCTION IN LEVEL OF FIXED ASSET TAX IN MAY 1974. FOLDES CONCLUDES THAT MEASURES TAKEN AT LAST DECEMBER'S CC SESSION TO SLOW RATE OF IMPORT LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 BUDAPE 01419 01 OF 02 150808Z

GROWTH, REDUCE LEVEL OF BUDGET SUBSIDIES AND ECONOMIZE IN USAGE OF EXPENSIVE RAW MATERIALS HAVE YET TO HAVE DESIRED EFFECT. IN ADDITION, HE WARNS HUNGARIANS TO EXPECT TERMS OF TRADE WITH WEST TO DETERIORATE FURTHER.

4. ECONOMIC STRAINS NOTED BY FOLDES HAVE APPARENTLY SET OFF LIVELY DEBATE AMONG ECONOMIC POLICY MAKERS ON QUESTION OF WHETHER TO IMPOSE STRICTER IMPORT CONTROLS AND QUOTAS.

IN ARTICLE APPEARING MAY 11 MAGYAR HIRLAP, HUNGARIAN GATT REPRESENTATIVE NYERGES TAKES ISSUE WITH THOSE WHO ADVOCATE IMPOSITION OF TIGHT CONTROLS AND THOSE WHO WOULD PLACE TOO MUCH EMPHASIS ON IMPORT-SAVING INVESTMENTS. NYERGES POINTS OUT THAT AS COUNTRY OF 10 MILLION HUNGARY CANNOT MAINTAIN LARGE SCALE ECONOMIC ENTERPRISE ON ITS OWN UNLESS THESE ARE BUILT TO SERVE NUMBER OF FOREIGN MARKETS AS WELL AND HE REMINDS HIS READERS THAT HUNGARIAN IMPORTS FROM FRG ARE PRINCIPALLY ITEMS WHICH ARE NOT AND CANNOT BE CONOMICALLY PRODUCED AT HOME. WHILE IN SOME EXCEPTIONAL CASES IT MAY BE NECESSARY TO IMPOSE QUOTAS AND OTHER RESTRICTIONS ON IMPORTS AS A LAST RESORT, NYERGES STATES THAT EXPERIENCE OF OTHER EUROPEAN COUNTRIES HAS DEMONSTRATED THAT OVER LONG RUN IMPORT CONTROLS ARE INEFFECTIVE AND DISTURB COURSE OF PRODUCTION. MOST IMPORTANT TASK AT PRESENT TIME, ARGUES NYERGES, IS TO DEVISE MEANS FOR STEPPING UP HUNGARIAN SALES ABROAD. FOREIGN CREDIT SHOULD BE ISSUED TO UTMOST FOR ITEMS WHICH WILL MAXIMIZE HUNGARY'S EXPORT POTENTIAL, THUS PERMITTING REPAYMENT OF SUCH CREDITS.

LIMITED OFFICIAL USE

NNN

LIMITED OFFICIAL USE

PAGE 01 BUDAPE 01419 02 OF 02 150712Z

10

ACTION EB-07

INFO OCT-01 EUR-12 IO-10 ISO-00 SP-02 AID-05 NSC-05

CIEP-01 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00

FRB-03 INR-07 NSAE-00 USIA-06 XMB-02 OPIC-03 LAB-04

SIL-01 SAJ-01 L-02 AGR-05 H-02 PA-01 PRS-01 SAM-01

/103 W

----- 029383

R 141250Z MAY 75

FM AMEMBASSY BUDAPEST

TO SECSTATE WASHDC 3218

DEPT OF COMMERCE WASHDC

INFO AMEMBASSY BELGRADE

AMEMBASSY BONN

AMEMBASSYBRUSSELS

AMEMBASSY UCHAREST

USDEL MTN GENEVA

AMEMBASSY MOSCOW
AMCONSUL MUNICH
AMEMBASSY PRAGUE
AMEMBASSY SOFIA
AMEMBASSY VIENNA
AMEMBASSY WARSAW

LIMITED OFFICIAL USE SECTION 02 OF 02 BUDAPEST 1419

5. COMMENT: NYERGES AND FOLDES ARTICLES TOGETHER ARE ADDITIONAL EVIDENCE THAT CONTINUED DEGENERATION IN HUNGARY'S TERMS OF TRADE WITH BOTH ITS EASTERN AND WESTERN TRADING PARTNERS IS CAUSING SERIOUS CONCERN. ALTHOUGH RANKING GOVERNMENT OFFICIALS HAVE REPEATEDLY ASSURED US THAT SITUATION IS MANAGEABLE AND THAT NO MAJOR CHANGES IN ECONOMIC POLICY ARE PLANNED, WE HAVE SEEN MANY SIGNS RECENTLY THAT SIGNIFICANT TIGHTENING UP PARTICULARLY WITH REGSSD TO WESTERN IMPORTS IS IN FACT TAKING PLACE. WE HAVE LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 BUDAPE 01419 02 OF 02 150712Z

BEEN TOLD THAT SPECIAL BODY APPARENTLY ESTABLISHED IN MINISTRY OF FOREIGN TRADE HAS BEEN SET UP TO CAREFULLY SCRUTINIZE ALL MAJOR IMPORT LICENSE APPLICATIONS. AT SAME TIME CONFIDENTIAL CIRCULAR HAS REPORTEDLY BEEN DISTRIBUTED TO ALL FOREIGN TRADING COMPANIES INSTRUCTING THEM TO AVOID PURCHASES FROM WEST GERMANY WHENEVER POSSIBLE IN AN EFFORT TO REDUCE LAST YEAR'S 800 MILLION MARK DEFICIT IN BILATERAL TRADE. NATIONAL BANK CREDIT POLICY TOWARDS ENTERPRISES SEEKING FUNDS FOR HARD CURRENCY PURCHASES IS TIGHTER THAN AT ANY TIME WITHIN RECENT MEMORY AND BANK IS APPARENTLY DEMANDING EXORBITANT RATES OF EXCHANGE FROM ENTERPRISES THAT WISH TO IMPORT WESTERN ITEMS WHICH NOT ON PRIORITY LIST, EVEN WHEN THEY HAVE SUFFICIENT FORINT RESOURCES AT THEIR DISPOSAL. ACCORDING TO BRITISH COMMERCIAL COUNSELOR, ONE HUNGARIAN HARDWARE WHOLESALER WAS RECENTLY TOLD BY BANK THAT HE WOULD HAVE TO PUT UP 90 FORINTS FOR ONE DOLLAR OF FOREIGN EXCHANGE -- MORE THAN TWICE THE FOREIGN EXCHANGE MULTIPLIER RATE OF 43.2 FORINTS TO \$1 -- TO IMPORT BRITISH TOOLS. HARD CURRENCY CONSUMER GOODS IMPORTS ARE BEING PARTICULARLY HARD HIT. THERE IS ALMOST A TOTAL FREEZE ON IMPORTS OF WESTERN AUTOMOBILES AND PURCHASES OF LUXURY ITEMS SUCH AS CIGARETTES AND LIQUOR ARE BEING CUT TO BONE. YET TO DATE, FEW FORMAL MEASURES TO RESTRICT HARD CURRENCY PURCHASES HAVE BEEN PUBLICLY ANNOUNCED ASIDE FROM NATIONAL BANK'S ACTION TO INCREASE INTEREST RATES ON LOANS TO ENTERPRISES BUYING SUCH PRODUCTS. WHILE HUNGARIANS PROBABLY WILL TRY TO AVOID PUBLICLY AND FORMALLY IMPOSING IMPORT RESTRICTIONS AND QUOTAS, IT SEEMS PROBABLY THAT THE NUMBER OF INFORMAL, BEHIND-THE-SCENES DISINCENTIVES TO IMPORTS WILL

CONTINUE TO RISE.

6. THUS FAR, SALES BY AMERICAN FIRMS IN HUNGARY APPEAR TO HAVE BEEN RELATIVELY UNAFFECTED BY TOUGHER POLICY ON IMPORTS. THIS UNDOUBTEDLY DUE TO FACT THAT OUR MOST SIGNIFICANT EXPORTS SUCH AS SOYBEANS, AGRICULTURAL MACHINERY, AND AGRICULTURAL CHEMICALS, ALL IN TOP PRIORITY SECTORS. REACTION TO U.S. EXHIBIT OF ADVANCED BUSINESS MACHINERY AT SPRING FAIR SHOULD GIVE US SOME INDICATION OF PROSPECTS FOR U.S. EXPORT OF NON-AGRICULTURAL PRODUCTS UNDER PRESENT CIRCUMSTANCES.

MCAULIFFE

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 BUDAPE 01419 02 OF 02 150712Z

LIMITED OFFICIAL USE

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: PRESS COMMENTS, ECONOMIC CONDITIONS, TRADE BALANCE, IMPORT CONTROLS, TRADE DATA
Control Number: n/a
Copy: SINGLE
Draft Date: 14 MAY 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: GolinoFR
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975BUDAPE01419
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D750170-0844
From: BUDAPEST
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750551/aaaabtiq.tel
Line Count: 241
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EB
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: GolinoFR
Review Comment: n/a
Review Content Flags:
Review Date: 03 APR 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <03 APR 2003 by ElyME>; APPROVED <07 APR 2003 by GolinoFR>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
05 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: MORE AUTHORATIVE COMMENT ON HUNGARIAN ECONOMIC STRAINS
TAGS: ECON, ETRD, HU
To: STATE COM
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006